

Dialectical Functionalism and European Community Telecommunications Policy

An Honors Thesis (HONRS 499)

by

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Abstract

The renewal of interest in the European Community in the last ten years has sparked a new round of political theorizing to explain European unification. Neofunctionalism, an early and influential regional integration theory which was discredited during the 1970s is coming back in modified form. One of these new theories which builds on neofunctionalism is dialectical functionalism. This paper reviews the tenets of neofunctionalism, as well as its shortcomings, then presents dialectical functionalism in relation to neofunctionalism. Next, a case study on the development of European Community telecommunications policy is presented, then the paper concludes with an application of dialectical functionalism to EC telecommunications policy.

This paper is dedicated to the memory of Dr. Vibeke Sørensen, Professor of International Organizations at the Rijksuniversiteit Groningen in the Netherlands, whose guidance was invaluable in the completion of this paper. Her untimely death in January 1995 robbed the world of an outstanding scholar and person.

After more than a decade of stagnation, the European Community came back to life in the mid-1980s. Previously, this great experiment in political and economic integration had, with the end of its early supranational successes, come to be considered yet another intergovernmental bargaining body on the order of the Organization for Economic Cooperation and Development (OECD) or the General Agreement on Tariffs and Trade (GATT). Political scientists, who had devoted a great deal of effort to examining and explaining the early steps in European integration, realized with the backsliding of the 1970s that their models were flawed, and largely turned their attention elsewhere. With its revitalization in the 1980s, the EC once again attracted the notice of political scientists, who dusted off the old theories in an attempt to explain the new round of integration. In recent years, journals devoted to international relations and European politics have bristled with articles trying to resuscitate the old theories and proposing new permutations to explain the seemingly illogical progress of European integration.

The search for a new integration theory has at its foundation the conflict between the two basic models of the past: neofunctionalism, whose emphasis on supranational power and increasing integration formed the predominant theory during the EC's successful beginnings in the 1960s; and intergovernmentalism, which cast the EC as little more than a negotiating forum for the governments of the member states -- a rather accurate description of the years of "Eurosclerosis" in the 1970s and early 1980s. Though recent developments in EC politics and policymaking have discredited these two basic theories in their original forms, students of the "new" European Community have selected elements from and added new considerations to these models in order to construct new theories of European integration. Dorette Corbey (1995) has proposed one of the new models, which she calls "dialectical functionalism," a theory based on neofunctionalism, but with a different analysis of the interactions of major actors to account for the stop-and-go nature of integration over the last four decades.

Dialectical functionalism will be the framework for analysis in this paper.

The 1980s have seen a great expansion in the scope of European Community competence. For its first two decades the EC concerned itself mostly with the negative integrative steps towards completing the customs union, a few substantive programs like the Common Agriculture Policy (CAP), and its attempts to increase or at least maintain its role on the European political stage. By the mid-1980s, most member countries were willing to accept that European solutions were needed for the problems faced by their economies in an increasingly globalized marketplace. The 1985 White Paper on the Completion of the Internal Market and the subsequent Single European Act (SEA) represented the emergence of a leading role for the EC in restructuring the European economy to finally achieve the goals of the Treaty of Rome. While the EC had always primarily been concerned with the European economy, the SEA pushed it much farther in the direction of economic union than could have been envisioned only a few years before. The White Paper proposed approximately three hundred measures that would be necessary to complete the internal market (Pinder, 1993: 53), and when the basic plan was codified in the SEA, the EC found itself in a position to exert a great deal more influence over economic policy.

One previously untouched area to which the EC began to turn its attention was telecommunications. EC interest in telecommunications began to develop in the early 1980s -- actually predating the 1985 White Paper -- after the divestment of AT&T in the United States and the liberalization of the telecommunications market in the United Kingdom. However these early steps amounted to little more than research on the state of the European telecommunications market. It was in 1987, concurrent with the adoption of the SEA, that the European Commission released its Green Paper on the Common Market for Telecommunications Services and Equipment, which set the framework for the EC's subsequent dramatic reforms of the European telecommunications market. Liberalization of telecommunications at the hands of the

EC is seen as an integral part of completing the internal market, but the achievement of the Commission's goals has not been without problems. Numerous actors have developed a keen interest in the sector, and there has been disagreement on the pace and necessity of change. This paper will provide a detailed background of the development of European Community telecommunications policy and will determine whether the assumption of this new responsibility by the EC supports Corbey's model of dialectical functionalism. After an outline of neofunctionalist theory and its shortcomings, the tenets of dialectical functionalism will be explained, followed by an examination of the history of the EC's involvement in the telecommunications field, and finally the application of dialectical functionalism to the European telecommunications experience.

Neofunctionalism

The experiences of the 1950s and the first half of the 1960s with the European Coal and Steel Community (ECSC), and later EURATOM and the European Economic Community (EEC) seemed to validate neofunctionalism, which became the prevailing integration theory in those years. Its most important feature was the concept of spillover, whereby integrative steps at the supranational level would create pressures for the integration of other related policy areas. This pressure was created when national interest groups, recognizing the superiority of transferring policy competence to the supranational level, would pressure the national governments to relinquish their sovereignty in those areas. The whole process was fostered by supranational leadership, embodied in the European Commission. Through such spillover, power and elite loyalty were increasingly transferred to the supranational body in a zero-sum game. Significantly, neofunctionalism did not predict a specific end-state for Europe, but rather viewed integration as a process (Lodge, 1993: xx-xxi).

A major reason for the early acceptance of neofunctionalism was its concern with the economic aspects of integration. The architects of the ECSC and the Treaty of Rome had envisioned economic integration as the means to the end of political integration. In the years following World War II, many European leaders sought to tie West Germany and France together economically so that a close partnership would develop which would preclude future military aggression. The creation of the ECSC in the early 1950s was the first step in this direction, creating a common market for steel and coal products -- industries which also had a high political salience in the member states. Consistent with the spillover concept, the success of the supranationalization of the coal and steel markets showed business elites as well as domestic political elites the potential advantages of integration in other areas. The creation of EURATOM and the EEC by the Treaty of Rome in 1957 institutionalized these spillover pressures and extended integration into nuclear energy and the creation of a customs union, respectively. According to neofunctionalism, these new organizations represented the recognition that economic efficiency would be increased by coordinating actions and policies above the national level. So while economics drove the integration process, there were inevitable political externalities to this collective action.

The surprising speed with which integration began to occur in the early 1960s seemed to support neofunctionalism, but its theoretical tidiness was not a concern of Charles de Gaulle, who felt that integration was going too far too fast. The 1965 crisis which de Gaulle precipitated, followed by the Luxembourg Compromise, substantially changed the course of the EC's development and was an event which simply had no place within the construct of neofunctionalism. There was no room in the model for regression, and the concerns of domestic governments about retaining sovereignty were much stronger than neofunctionalists had expected. According to neofunctionalism, the united forces of the Commission and the mobilized national interest groups should have overpowered the national governments, but in truth the political spillover pressures

which came with the economic integration caused a backlash on the national level, and the fact that a single national leader could not only halt but reverse the integration process proved fatal to neofunctionalism.

Although Ernst Haas, the man credited with launching neofunctionalism in the 1950s, had by 1975 recanted the theory as an inaccurate representation of European integration, neofunctionalism's central tenets have continued to inform analysis of integration to the present day, and indeed some authors (George, 1991; Mutimer, 1989) have attempted to revive the theory in light of the recent renewal of integration in the EC. However, even these supporters recognize the flaws of neofunctionalism in its original conception, and have proposed a variety of changes and extensions. The universal criticism of neofunctionalism is its neglect of the role of domestic governments. Neofunctionalism ignores the truism that no person or organization gives up power voluntarily: the theory of spillover posits that under pressure from interest groups and the supranational body, national governments realize the benefits of ceding their power, and do so voluntarily. The assumption is that efficiency is the ultimate goal of all three actors, but it ignores the fact that efficiency may become only a secondary goal if a national government feels its authority to decide the most efficient course of action is being challenged. In any system where the member states retain the power, even if outside accepted channels, to unilaterally block the functioning of the supranational body, national governments must be included as part of the equation of integration.

Another criticism of neofunctionalism is that it assumes the process of integration occurs in a vacuum; the influence of countries outside the integrating unit as well as the condition of the world economy is disregarded. George (1991) and Corbey (1995) both cast international factors as catalysts for both EC and member state actions. For example, the breakdown of the Bretton Woods system caused member nations to seek currency stability in the European Monetary System (EMS). Had the United

States not dismantled Bretton Woods, there would have been little impetus for the European nations to try to coordinate monetary policy at the European level. Similarly, the relative decline of Europe within a rapidly changing global economic environment during the 1980s made the ambitious measures of the SEA appear necessary to the member governments. On the other hand, external factors can also impede integration. The powerful influence of the United States over Western Europe during the Cold War played a large part in convincing de Gaulle to break with the North Atlantic Treaty Organization (NATO) and stall European integration in order to maintain an independent position for France in world affairs. Thus, while external factors do not directly affect the process of integration, they do provide a stimulus for member governments, the Commission, and interest groups to turn their attention toward particular issues and problems.

A final shortcoming of neofunctionalism identified by George (1991) and related to the preceding point is that it is predicated on steady economic expansion within the member countries. As long as economic fortunes continue to be favorable, individual states will be more willing to experiment with the transfer of economic policy power to the supranational level. In times of economic downturn, however, states tend to become more protectionist in order to shelter their own economies; in such times, national governments want to have as many options as possible, so the transfer of power in a specific area to the supranational body becomes anathema. The first two decades of the EC illustrate this problem quite well. The 1960s was a decade of growth for the Western European economies, which by then had largely recovered from World War II. Those years also coincided with the rapid development of power in Brussels, and the EC's reversal of fortune in the late 1960s was due to political, not economic considerations. The 1970s were, in contrast, a time of economic stagnation and were the time of acute Eurosclerosis, when the EC was disregarded as member states pursued national solutions to their economic problems. The 1970s taught the

industrialized nations that sustained economic growth could not be taken for granted, and thus one of the basic assumptions of neofunctionalism was erroneous.

The intergovernmentalist scholars who displaced the neofunctionalists in the 1970s based their model of the EC on the paramount importance of the member governments, assigning a secondary role to national interest groups, and generally disregarding supranational leadership. Like neofunctionalism in the 1960s, intergovernmentalism accurately explained the situation at the time, but like neofunctionalism, intergovernmentalism in its original form became obsolete as the dynamics of European integration changed once again. This theoretical casting about highlights a troubling methodological problem the EC presents. The EC as a supranational organization with sovereign powers is unique. Political theorists, especially those in the 1960s, had to base their theorizing on an organization barely a decade old and without any equivalent. Deriving a parsimonious, generalizable theory from the observation of one subject is risky business in any science, yet that is exactly what integration theorists have had to do. Now, as the Treaty of Rome approaches its fortieth birthday, comparative study is still impossible, but a chronological approach is becoming feasible. Fostered both by the new livelihood of the EC and by the benefit of increased hindsight, European integration is once again fertile ground for theorizing.

Dialectical Functionalism

Among the numerous new theories of European integration is a model proposed by Dorette Corbey in the Spring 1995 issue of *International Organization*, called "dialectical functionalism." Explicitly based on neofunctionalism, this new theory attempts to correct the flaws of neofunctionalism, while adding a longer time horizon to the spillover concept, allowing room for action (integration) and reaction (stagnation), hence the term "dialectical." As such, it constitutes a refinement of neofunctionalism made possible by the EC's advancing age. The dialectical process, as history shows,

can take many years, and thus could not be detected by researchers in the 1960s. Therefore, neofunctionalism was not wrong, according to dialectical functionalism, just naive, based on incomplete information. The major differences from neofunctionalism are the following

- Dialectical functionalism rejects neofunctionalism's widely criticized neglect of the national governments in the integration process. Instead, it posits a significant role for all three major actors -- supranational institutions, national interest groups, and national governments -- and a new dynamic of interaction between them.
- In dialectical functionalism, the spillover process is not continuous, as in neofunctionalism. Each step of integration provokes a reaction in the national governments against the supranational body, resulting in stagnation.
- In contrast to the neofunctionalist view, the cumulative transfer of sovereignty to the supranational entity does not make the nation-state obsolete, but rather increases its role in mediating between competing interest groups.

Corbey summarizes the dialectical process in six steps -- three relating to national government action:

1. Integration in one policy area leads member states to safeguard adjacent policy areas against EU impact and to protect formal national autonomy.
2. In adjacent areas, government intervention and, in time, policy competition increase.
3. When state intervention (or policy rivalry) in these neighboring areas becomes counterproductive, policy preferences converge and further integration is demanded by the member states, or they agree to integration supplied by the European Commission, or both. (p. 265)

And three detailing the role of interest groups:

4. Interest groups finding their position impaired by integration direct their demands toward the European level; since the same interests are affected in all member states, transnational coalitions come about.
5. Integration stirs domestic power relations: interest groups that are or that become active in adjacent areas can improve their position. They direct

their demands at the national government. Where these groups defend opposing interests, national bargaining comes into play.

6. The renewed participation of groups in adjacent areas will result in disturbing governments, as such participation leads to stagnation in the new policy sectors. To promote change, governments turn toward the EU. (p. 268)

An illustration from international trade demonstrates the reaction of governments to integration. When the GATT began to exert its power by multilaterally lowering tariffs, national governments were deprived of a policy instrument. So that they could still control their foreign trade flows, even while agreeing ideologically with the GATT tariff reductions, many countries developed a variety of non-tariff barriers, which were not covered by the GATT agreement. In such a situation, the gains from free trade are quickly nullified by unilateral action. According to dialectical functionalism, each country will build up a similar non-tariff fortification so that no country will ultimately gain from its own protectionist measures. At this point, states will appeal to the GATT organization to make new rules eliminating non-tariff barriers, marking the return of supranational integration. Yet, once again, individual countries have lost another policy instrument, so the process begins again. This is the essence of dialectical functionalism, and this focus on the *process* of integration without determining an end-state is a characteristic it shares with neofunctionalism. Spillover does indeed occur in this example; however, it is not a steady, continuous process as neofunctionalism would suggest. There is a long period of stagnation before the next integrative step is taken. Furthermore, this example illustrates that the role of the national governments does not diminish, since major policy decisions continue to be made at the national level in order to maximize movement within an increasingly restrictive set of multilateral rules.

Unlike neofunctionalism, dialectical functionalism attaches importance to international factors. However, the role of the global environment is merely catalytic; it does not affect the process of integration. That is, changes in the global environment

can, and often do highlight the inefficiencies of following national strategies, and thus spur national governments or interest groups to call for integration. So international factors can determine when, but not how integration will occur.

The role of the supranational actor in dialectical functionalism is more nuanced than in neofunctionalism. While in neofunctionalism the supranational body takes a proactive approach to increasing its power by courting interest groups and being an initiator of the integration process, dialectical functionalism sees its role as more of a forum for consensus-building. It makes its proposals based on a knowledge of the needs and wants of the other actors and always remains prepared to take the reins of power when a stagnation period suddenly comes to an end and the call for integration comes forth once again.

Taken as a whole, dialectical functionalism represents a new dynamic in actor interaction, offering an alternative to what is generally considered the weakest part of neofunctionalism. The national governments, interest groups, and supranational organizations all play an important role in the process of integration. Dialectical functionalism also embraces the concept of spillover, though the integration/stagnation dialectic impedes the smooth progress of integration. Finally, since the nation-state maintains an important place within the system, the transfer of sovereignty to a supranational body is not a zero-sum game, as it is in neofunctionalism. The next section will discuss the development of the EC's telecommunications policy from a historical perspective, after which dialectical functionalism will be applied to the experience of telecom deregulation.

The Development of a European Telecommunications Policy

From the time of the invention of the telegraph and the telephone, the operation of telecommunications systems was considered a public utility. Monopoly powers were given to state agencies or regulated companies for the provision of all aspects of

telecommunications services. The rationale was twofold: first, economic thought determined that the telecommunications infrastructure was a natural monopoly, so free-market competition would reduce efficiency and raise costs. Second, regulated monopolies allowed governments to provide the social and political goal of universal service at affordable prices. However, regulation was necessary, because it was recognized that "a monopoly supplier will have few incentives to minimise costs, to adapt rapidly to new technologies or to set prices in such a way as to combine economic efficiency and social equity" (Ergas, 1987). To counteract this tendency, regulatory bodies attempted to provide incentives for efficient operation of the infrastructure, to prevent the abuse of monopoly power, to limit political interference, and to allow the flexibility to adapt to changes in the market. However, evidence suggests that regulation of monopolies had great difficulty in achieving these goals (Ergas, 1987).

At the end of the 1970s, this mounting evidence prompted governments to reassess the role of government control of certain sectors of the economy. After the economic malaise of the previous decade, governments saw in privatization and deregulation the opportunity to raise the efficiency of their economies, enhance their global competitiveness, reduce the size of the public sector, and thus provide budgetary relief (Stevens, 1992).

In the telecommunications sector, the United States, Japan, and Great Britain instituted reforms in the early 1980s which broke the historical monopolies of the institutions which had controlled the communications infrastructures within their countries. These measures were enacted in recognition of the rapid growth of the telecommunications sector, whose revenues in 1991 were expanding at 10-15% per year (Moore, 1992); the importance to the national economies of developing a modern infrastructure; and the competitive advantages conferred on firms with access to advanced services, which the telecoms were slow to introduce (Sandholtz, 1993).

Recognizing the possibility that Europe could easily be left behind in the telecommunications race, the Commission of the EC began to take notice. A report published in 1983 on the state of telecommunications within the Community found its performance, especially in open markets, to be relatively poor (Locksley, 1983). However, the European telecommunications market was inherently different from those of the United States or Japan. Within the Community, there were twelve autonomous national systems which were technically incompatible, offered differing services and equipment, and had varying tariff structures. This was because in each member state (with the exception of Great Britain) all aspects of national telecommunications were still controlled by the entrenched telecoms. This meant that telecoms operated in closed markets, where they were the exclusive sources of terminal equipment (any appliance, such as a telephone or facsimile machine, which is connected to the network) and purchased all their equipment from one or two national suppliers (Sandholtz, 1993).

After the 1987 adoption of the SEA, the Commission began to take concrete action to break down the old system and introduce competition and compatibility into the wider European market. This action was stimulated not only by the necessity of a liberalized telecommunications structure for the proper functioning of the internal market, but also by the benefits which were already to be seen from the recent deregulation in the US, Japan and Britain, as well as the influence of neoclassical economics, which advocated a return to free-market principles (Knieps, 1989). The relative backwardness of the European market was illustrated by some striking statistics:

- The per capita investment in telecommunications in the Community was only 40% of that in the US.
- Only half as many telephones were in use in European businesses as in US businesses.

- In the early 1980s, telecommunications equipment in Europe was 80%-100% more expensive than in the US (Almeida, 1987).

Further impetus came from two major interest groups within the Community. The first were the major producers of telecoms equipment. Though they had been treated to assured markets under the old public procurement regimes, they were becoming increasingly aware that they needed access to Community-wide markets in order to remain globally competitive, and thus desired a standardization of technical specifications. The second group was the users and providers of advanced telecommunications services. As a result of deregulation in the US and Japan, companies there were now able to make use of highly customized telecommunications systems, including cutting-edge technological developments, which put them at a distinct competitive advantage over European companies (Sandholtz, 1993).

In 1987, as a result of these pressures, the Commission issued its milestone "Green Paper on the Development of the Common Market for Telecom Services and Equipment." This document was to serve as the blueprint for the Commission's telecom liberalization strategy. The Commission stated the overall goals of the Green Paper as follows:

The aim of the Green Paper is to bring about a more coherent framework in the ongoing regulatory change to encourage the development of new services in a more competitive framework, and to establish (and utilize politically, for example in international trade negotiations) a wider European Market for telecommunications services. (Mueller, 1988)

The major recommendations were sweeping: the total deregulation of the markets for terminal equipment and "enhanced telecommunications services," the liberalization of public procurement practices by the national telecoms, and a multilateral effort towards technical standardization within the Community. Monopolies were to be kept, however, on the network infrastructures, and on basic services such as voice

telephony, subject to periodic public interest investigations (Knieps, 1989, and Scherer, 1993).

These recommendations served not only the interests of the outside groups, but also were seen as necessary by the Commission in achieving its own long-range goals. First, the unavailability of advanced telecommunications services across borders was an impediment to the successful completion of the internal market and contrary to the free movement principles strongly advocated by the Commission. Second, the national markets for certain telecom sectors were too small to support competition; the existence of a unified European telecommunications market would allow for competition in all sectors. Third, a true and effective regional market required universal standards, so that equipment and services would be compatible throughout the Community. And fourth, unified standards required joint research and planning for future integrated digital networks, as well as the adoption of new technologies (Sandholtz, 1993). All of these problems needed to be surmounted as part of the Commission's internal market program.

Since Community policy making has historically been an arduous affair consisting of deal-making, concessions, and ultimately "lowest common denominator" policy outputs, it is not surprising that these recommendations met with some initial resistance from the member states -- especially considering that the proposals directly threatened the long-established, powerful telecoms. Yet by the late 1980s, the rapid development of information technologies coupled with the clear success of other deregulation schemes made even the telecoms realize that change was necessary. Thus, member states voluntarily transferred regulatory powers to the Commission, with the national telecoms agreeing to the consequent liberalization of their markets in return for the benefits they realized collective action would bring. Sandholtz (1993) identifies two conditions necessary for collective action of this type: adaptation on the national level and international leadership. The national governments and telecoms had, even

before the Commission began implementing the recommendations, already begun to discuss unilateral liberalization measures. With the entry of the Commission, the necessary international leadership was introduced, and the Commission was able to pull the telecoms through its own deregulation plan, which was generally more ambitious than anything which had been proposed at the national level.

However, in its Green Paper, the Commission stopped short of recommending the total elimination of monopoly practices, allowing the telecoms to retain their control of basic services, most significantly, voice telephony, which was narrowly defined by the Commission as "the commercial provision for the public of direct transmission of speech in real time" (Dommering, 1993). This is largely attributable to the continued conflict between liberalization and universal service. In the words of Knieps (1989), the deregulation experiences in the US, Japan, and Britain had shown that "equity considerations in the form of socially desired infrastructure objectives may strongly influence the course of the deregulation process in the telecommunications sector."

There was still a large degree of debate on reconciling these two seemingly contradictory goals. Universal service, as defined by the Commission, is the right for all customers to have a telephone connected, to be able to utilize services meeting universally defined quality standards, and to progressively have access to a range of new services (*I&T Magazine News Review*, 1993). The Commission's solution to the conundrum of assuring these rights in the face of unregulated competition was to retain the traditional status of the telecoms as utility providers in the area of basic services. Nevertheless, progress was made in restricting the telecoms' abuse of their dominant positions in these markets. The Commission promulgated rules against restrictions on the provision of basic services, arrangements tying provision of monopoly services to the supply of equipment, and perhaps most importantly, the cross-subsidization of competitive services by revenues generated from monopoly services (Scherer, 1993).

Like universal service, and intimately connected with it, cross-subsidization is an issue which has perplexed regulatory bodies for years. It is the practice of overcharging for services on long-distance and international service to make up for the losses incurred in providing inherently unprofitable local service. Because of universal service objectives, regulatory bodies have mandated an equalization of local phone rates regardless of geographical circumstances. Thus local rates are often below the cost of the service, especially in rural or remote areas. In recent years cross-subsidization has increased because new technology has greatly reduced the cost of long-distance and international calls, though the same technology has not helped local service (Knieps, 1989). The scope of the practice is huge -- the Commission estimates that as much as sixteen billion Ecu per year is transferred by European telecoms from long-distance services to cover the losses from local services, as well as operator assistance, emergency services, and so forth (*I&T Magazine News Review*, 1993). Because the rates of long-distance calls are so far above their costs, they are tremendously profitable, which can lead to the phenomenon of "cream skimming;" if competition is allowed in long-distance while the telecoms are still obligated to local service by universal service requirements, long-distance revenue will be lost to private long-distance companies, putting the telecoms into a legally mandated loss situation. So that cream skimming does not occur -- as would be possible in the Community's rubric -- some regulation continues to be necessary, especially since total deregulation would lead to politically problematic price increases for local service (Mueller, 1989).

In proposing concrete solutions for the theoretical quagmires of universal service and cross-subsidization, the Commission established in its 1987 Green Paper a coherent regulatory framework for the European telecommunications market, a considerable accomplishment, in view of the fact that telecommunications policy had not been an area of Community competence until that time. And since 1987, the Commission has continued to be ahead of the national telecoms and the member states

in its drive towards liberalization (Sandholtz, 1993). There are now two main sources of authority for European Community involvement in telecommunications regulation. First, Article 100a of the EC Treaty is the basis of Council of Ministers directives, requiring qualified majority adoption, of Commission proposals to effect the approximation of national laws to help establish the internal market. Since telecom liberalization is central to the Commission's overall internal market plan, all Community telecommunications policy may be justified under Article 100a. Furthermore, under Article 90(3), the Commission has the power to address directives or decisions directly to member states to assure that national telecommunications laws do not conflict with the EC Treaty. The Commission has used this procedure in the past, effectively "forcing the Council's hand," and meeting with great displeasure from some member states (Scherer, 1993), who have challenged the Commission's authority to issue specific directives on telecom liberalization. The European Court of Justice, however, has largely upheld the Commission's power in these cases (Scherer, 1993; Darnton and Wuersch, 1992). Using its powers derived from the EC Treaty, the Commission has developed a four-point program which guides Community policy. The Community now sponsors an extensive coordinated research program for new telecommunications technology, the common development of a modern digital information infrastructure, the opening of markets in equipment and services, and the joint management of technical standardization and planning (Sandholtz, 1993).

Within the last three years, the Commission has pushed even further, creating an official list of "basic" network services (local telephone, telex, and data transmission) which may remain monopoly-controlled, working towards the universalization of tariff structures for private networks, and abolishing the practice of cross-subsidization between telecoms and postal services (Capello and Nijkamp, 1992). And in 1993, the Commission reached an agreement with the member states to

completely open the market in voice telephony, including local service, by 1998 (*I&T Magazine News Review*, 1994).

Clearly, the European telecommunications sector, which Capello and Nijkamp (1992) say "is in the vanguard of the establishment of an internal market," has been greatly affected in a short period of time by the institutions of the European Community. Whereas only ten years ago national telecoms still tightly controlled their sacrosanct fiefdoms, the European market is now quickly regaining ground lost to the deregulated US and Japanese markets. Although the reforms are not yet concluded, the speed and success of the changes in telecom regulation can be considered "a major political achievement of the Commission" (Sandholtz, 1993). Indeed, Sandholtz sums up the Commission's performance with laudatory words:

The core of the Commission's plan for liberalizing telecoms markets survived the battles intact. The Commission initiated the proposals for market opening, set the agenda for Community deliberations, and pushed for the approval of specific directives. In every instance, the Commission was ahead of the member states in its objectives for EC-level reforms; in many instances Commission proposals had to overcome the resistance of major member states. The result is that the Commission now has a more solid grasp than it began with on independent powers to open telecoms markets to competition.

Thus, the success of European Community telecommunications policy has not only meant the improvement of services for network customers, it has also become a feather in the Commission's cap. And in the long term, it is likely to help keep European business and industry competitive in the global market, as well as facilitate what is perhaps the Commission's ultimate goal, the completion of the European internal market.

Dialectical Functionalism and European Community Telecommunications Policy

The liberalization of telecommunications in the EC is a clear case of economic integration. Before 1983, telephone services were entirely the province of national

governments and their affiliated Postal, Telephone and Telegraph Administrations (PTTs); the EC had absolutely no competence in the area of telecommunications. In only four years, the EC went from bystander to policy leader and in the past eight years has largely transformed its blueprint laid out in the 1987 Green Paper into reality. PTTs which had been powerful state monopolies were converted in under ten years into private corporations subject to competition from the likes of AT&T. A complex interplay of factors and actors caused this shift of policymaking authority, in a process which reflects the predictions of dialectical functionalism.

The major departure from dialectical functionalism in the telecom case is the origin of the national protectionism. Telecommunications, as discussed in the previous section, had historically been considered a natural monopoly, so the usual solution was to organize a state-run monopoly. In the European countries, the telecoms became large, entrenched political entities, as well as business concerns, which governments saw as strategic for national security. For these reasons, the countries of the EC entered the 1980s with the old system intact and no intention of allowing competition, much less control over their telecoms by the Commission. With the progress of technology and the increasing competitiveness of the US and British telecommunications giants, national policies were becoming counterproductive, as the dialectical functionalist model would indicate, but the national protection of telecoms was not a reaction to a previous integrative step. Nevertheless, many of the other forces depicted in the dialectical functionalist model were present.

The main catalyst for change was external factors. The model says that outside influences can reveal the inefficiencies of the national systems, and in this case technological convergence and the opening of other markets to competition exposed the disadvantages of the fragmented European system. Had electronic technology remained static and had the United States retained its regulated monopoly arrangement, there would have been no impetus to change the European system that had successfully

operated in such an environment for nearly a century. But these important external developments forced Europeans to start examining and questioning the appropriateness of the existing arrangement.

The changing international environment caused all three sets of actors to take note of this new problem. The Commission, recognizing the importance of communication in the internal market, began collecting information on the state of the telecommunications market and drafting proposals on making Europe more competitive internationally through telecom liberalization. The Commission very quickly became an expert on telecommunications issues, and was able to convert that expertise into policy leadership when it was needed. As the model would predict, the Commission consulted the affected interest groups as well as the national governments in its preparation for the release of the Green Paper. Some national governments also began taking measures unilaterally as in the radical reforms in Britain, or the studies on liberalization in the Netherlands.

Finally, interest groups such as business associations and equipment producers began to lobby for liberalization. Interest group competition was to be found on the national level, as those groups which stood to benefit from lower prices and open markets competed with those interested in preserving the monopolies, consisting mainly of PTT employees and their political allies. National governments caught in the crossfire were in a difficult position, recognizing the benefits national industry would derive from the liberalization of the telecommunications market, but at the same time beholden to the large electoral bloc the telecom employees and their families represented. The entry of the EC into the fray in support of the business interests relieved the national governments of the need to decide which of the powerful groups would have to be forsaken; in this case the national governments actually derived a benefit from relinquishing national control over telecommunications policy, which allowed them to drop a long-standing but now counterproductive policy with a

minimum of political damage. This situation mirrors the portion of the dialectical functionalist model concerned with interest group competition.

In the end, the Commission forged a general consensus around its liberalization proposals. Even in the European Court of Justice cases filed against the Commission for issuing directives on liberalization based on Article 90 of the EC Treaty, the plaintiffs challenged not the content of the directives, but only the Commission's legal authority to issue them (Darnton and Wuersch, 1992). And understandably, in a sector whose traditional structure has been greatly altered in such a short time, there has been some institutional inertia in countries like Belgium and France. All actors involved, including the PTTs themselves, now recognize the need for change to accommodate the changing technology, as well as to permit European companies to compete on equal footing with their rivals in the United States and Japan. The disagreements come not over the necessity for change, but rather over questions of pace and scope. And these differences are acceptable within dialectical functionalism; what is most important is that integration has occurred and the EC is now the primary policymaker and interest aggregator in a sector that only fifteen years ago was the solely the prerogative of national governments.

The failure of national telecommunications policies was not a result of the dialectical process; the orthodoxy of natural monopoly and universal service requirements had shaped the structure which had acceptably governed the telecommunications industry in Europe until only recently. These ultimately counterproductive national policies were not a defensive reaction to prior integration, as dialectical functionalism would predict. They were instead rendered counterproductive by changes in the global environment. With the recognition of the need for change, the Commission began to develop its competence in telecommunications policy, interest groups competed at the national level to further their individual goals, and national governments began to study and even act on liberalization pressures. Eventually it

became clear that the EC was the proper locus for the most efficient solution, and member governments, seeking relief from the difficult coalitional conflicts at the national level, granted the EC the authority it needed to coordinate the reforms. Thus, integration occurred in accordance with the predictions of dialectical functionalism.

Conclusion

The development of a European telecommunications policy should be seen in the larger context of the internal market reforms embodied in the Single European Act. It is unlikely that the liberalization of the telecommunications market could have occurred so quickly and decisively if there had not been agreement on the general goal of completing the internal market. The overall ideological shift in Europe towards liberalism has elevated economic efficiency to the top priority, and the interests of standardization and scale have made the European Community a natural location for economic policymaking. Ironically, the same national political leaders who strive for efficiency are often also the strongest advocates of national sovereignty. Dialectical functionalism, in the tradition of neofunctionalism, sees these two principles as incompatible in the long term: economic integration occurs as a result of the inefficiency of varying national policies. The overall fragmentation of the European market came to be seen as a handicap to European economies in the 1980s vis-à-vis the large integrated markets of the United States and Japan. The internal market reforms are intended to create out of the fifteen member states one homogeneous market, and the new telecommunications policy is only a part of the larger program. Nevertheless, telecommunications constitutes a unique case because of the history of state monopoly control, and presents an excellent illustration of dialectical functionalism at work.

Like neofunctionalism, dialectical functionalism identifies integration as an ongoing process. The integration of telecommunications policy should then be expected to produce a reaction by member governments to protect their policy power in

areas adjacent to telecommunications. The Commission has been thorough in the coverage of its reforms, so national governments may have difficulty finding related areas to fortify against EC incursion. If the time element of dialectical functionalism is correct, however, such a reaction must occur, in order to continue the integrative process. The next decade will show whether the EC reforms have been successful, and will indicate whether the reaction/stagnation phase predicted by dialectical functionalism will in fact occur, for only with the passage of time can theories of European integration be tested. Nevertheless, based on what is now known about the short history of European integration, dialectical functionalism holds considerable promise.

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